Natural Resources Canada
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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 24, Volume 8

December 13, 2013

Canada

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National Overview

Canadian Retail Gasoline Prices Increased 0.5 Cent per Litre from Last Week

For the week ending December 10, 2013, Canadian average retail gasoline prices increased from the previous week by less than 1 cent per litre to $1.26 per litre. However, since the last report two weeks ago, average Canadian retail pump prices decreased by nearly 1 cent per litre.

Diesel fuel prices rose by 1 cent per litre to $1.35 per litre compared to the previous week. Furnace oil prices increased by 2 cents per litre from the previous week and averaged $1.25 per litre.

Recent Developments

- **Price Gap between Canadian Heavy Crude and Brent Increased in December**: According to Scotiabank, the wide gap between world oil prices and what Canadian producers are currently getting for heavy crude underscores the need for more pipelines and market diversity. Scotiabank expects the differentials in December to be around $54 per barrel off Brent. (Source: Daily Oil Bulletin)
- **Ontario Diesel Fuel Mandate**: The Ontario Government has a proposed regulation that would require 2% "greener diesel" content in diesel fuel and heating oil sold in the province starting April 1, 2014, rising to 4% on January 1, 2016. The 2% greener diesel would have to emit 50% less greenhouse gases on a lifecycle basis than petroleum diesel, and the 4% diesel would have to emit 70% less. (Source: Ontario Ministry of the Environment)
- **10% of World Refining Capacity at Risk of Closure**: According to the International Energy Agency, nearly 10 million barrels a day or 10% of world oil refining capacity is at risk of closure or low utilization rates by 2035, reflecting growing refining capacity in the Middle East and Asia and declining oil demand in many developed countries. Refineries in Europe are especially vulnerable. In North America, despite the growth in light tight oil and oil sands, the volume of oil processed by refineries will fall as low-cost competition from refineries in the U.S. Gulf Coast and Mid-Continent forces closures on the U.S. and Canadian East Coast and the U.S. West Coast. (Source: Bloomberg, Global Refining & Fuels Today)

This is the last issue of Fuel Focus for this year. The 2013 Annual Review will be released on January 17, 2014 and the regular bi-weekly issues will resume on January 31, 2014.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

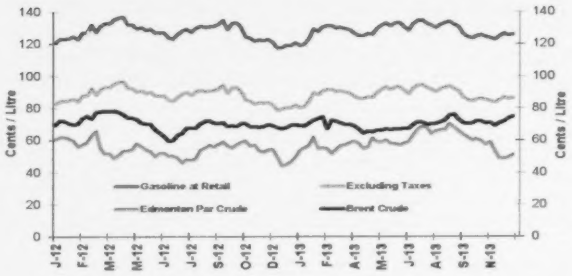
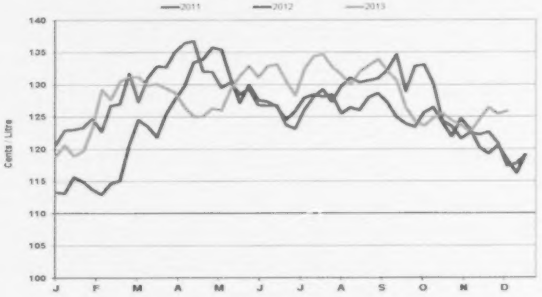


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2013-12-10	Previous Week	Last Year
Gasoline	125.9	+0.5	+8.6
Diesel	135.1	+0.7	+9.3
Furnace Oil	124.8	+1.7	+8.1

Source: NRCan

Natural Gas Prices for Vehicles

2013-12-10	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	119.4	78.8	81.7
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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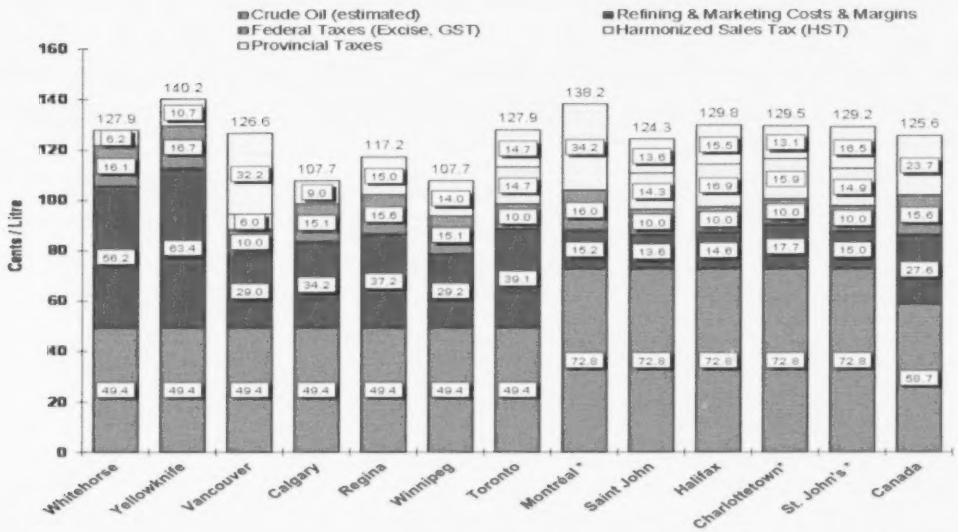
Retail Gasoline Overview

For the period ending December 10, 2013, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.26 per litre, an increase of 1 cent per litre compared to the previous report of November 29, 2013. Compared to the same period in 2012, the average Canadian pump price is 5 cents per litre higher.

The **four-week average** crude component was 59 cents per litre, a decrease of 1 cent compared to two weeks ago. The crude oil price component of gasoline is 0.3 cent per litre lower than at the same time last year and accounted for less than half of the pump price.

At the national level, refining and marketing costs and margins increased by 2 cents per litre to nearly 28 cents per litre from the previous report two weeks ago. This is almost 5 cents per litre higher compared to the same period last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities Four-Week Average (November 19 to December 10, 2013)



Source: NRCan

** Regulated Markets*

Winter Energy Outlook 2013-2014

According to the National Energy Board's (NEB) latest Winter Energy Outlook, Canadians will likely pay slightly higher prices for natural gas this winter compared to the previous winter, while crude oil and heating oil prices should remain similar to last winter.

Global economic growth remains sluggish, but stronger growth is forecast in 2014. As a result, moderate global energy demand is expected over the upcoming Canadian winter. Risks for the global economy appear mainly to the downside, including ongoing financial sector challenges in Europe, slowdown of economic growth in emerging economies, potential fiscal instability in advanced economies, and geopolitical risks.

Environment Canada and the U.S. National Oceanic and Atmospheric Administration (NOAA) forecast normal temperatures for most of Canada and the U.S. this winter. Above-normal temperatures are forecast for the southern U.S. and Northeast states and provinces, while the Canadian west coast is expected to have below-normal temperatures. This will result in average seasonal demand for heating fuels such as natural gas and heating oil for most of North America this winter. However, above-normal temperatures expected in the Northeastern states and provinces mean this region could have below-average demand for heating fuels.

Source: NEB, http://www.neb-one.gc.ca/clf-nsi/rnrgynfmtn/nrgyrprt/nrgytlk/tlkwntr2013/tlkwntr2013-eng.html

Wholesale Gasoline Prices

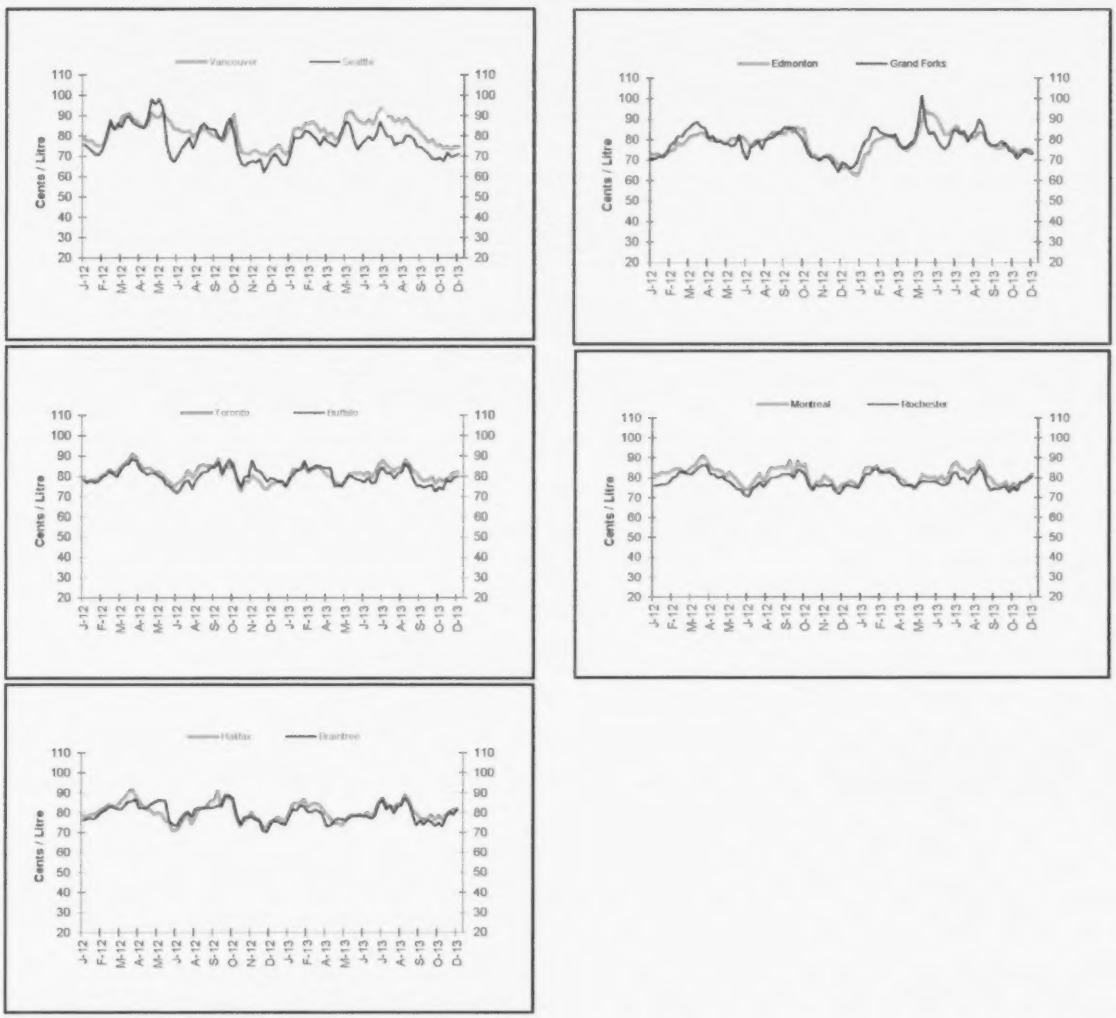
Wholesale gasoline prices, compared to the previous week, rose in most centres for the **week of December 5, 2013**. Overall, price changes ranged from a decrease of nearly 2 cents per litre to an increase of 3 cents per litre.

Wholesale gasoline prices in Eastern markets, in both Canada and the United States, increased from less than 1 to 3 cents per litre, compared to the previous week, ending the period in the 80 to 82 cent-per-litre range.

Wholesale gasoline price changes in Western centres ranged from a decrease of less than 2 cents per litre to an increase of 1 cent per litre and ended the period between 71 and 75 cents per litre.

Compared to last year, wholesale price changes in both Canadian and American selected centres ranged from an increase of 11 cents per litre to a decrease of 1 cent per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending December 5, 2013
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

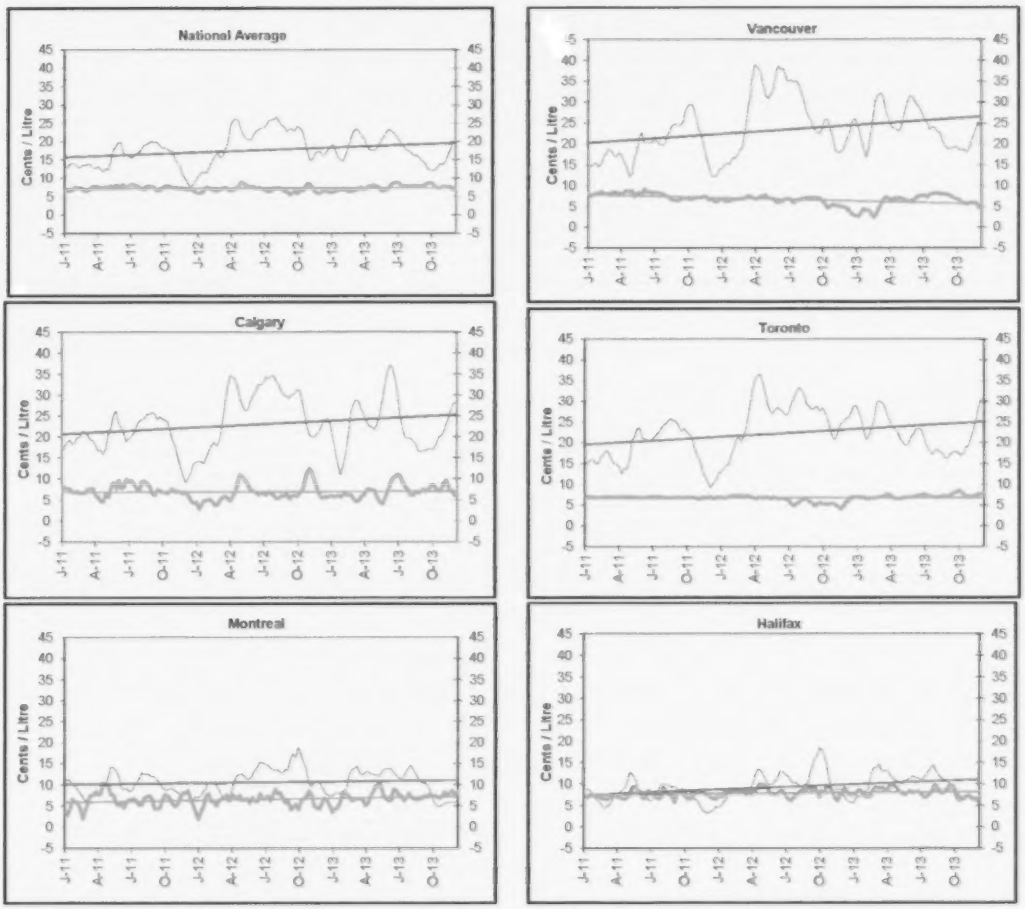
On average, refining margins this week increased by 2 cents per litre to 20 cents per litre at the national level compared to the last report on November 29, 2013.

In general, both refining and marketing margins are influenced by specific market conditions, mainly due to changes in product supply and demand balances.

Nationally, the marketing margin hovered at around 7 cents per litre.

This margin, which tends to fluctuate depending on local market conditions, represents the difference between the pump price and the price paid by the retailer to purchase the gasoline and also serves to pay for the costs associated with operating a service station.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending December 10, 2013
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Crude Oil Prices Fluctuate Marginally but Price Differential Remains Wide

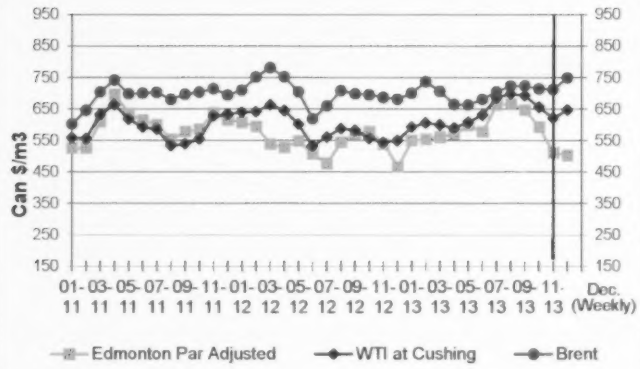
For the week ending December 6, 2013, prices for the three marker crudes averaged between $503/m³ and $749/m³ (US$75 to US$112 per barrel).

Edmonton Par prices ended the week at $503/m³ (US$75 per barrel) slightly higher by $13/m³ (US$1 per barrel) than the previous week. The price gap between the WTI and Brent crude oil stood at $102/m³ (US$15 per barrel) for the week ending December 6, 2013.

Brent crude oil prices moved up slightly following the meeting of the members of the Organization of Petroleum Exporting Countries (OPEC) in Vienna on December 4th. The organization decided to maintain their production quota level at 30 million barrels per day.

U.S. crude oil inventories remain in the upper range of their 5-year historical average helping to moderate the rise in prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2013-12-06		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	503.24	75.06	+12.70	+1.33	-5.73	-6.56
WTI	646.42	96.42	-1.48	-1.01	+100.74	+8.91
Brent	748.92	111.71	+12.54	+0.99	+70.96	+2.98

Source: NRCan

Diesel to Dominate Demand Growth

Globally, between now to 2035, the demand for diesel will outgrow the demand for all crude oil products. The International Energy Agency forecasts that diesel will see the largest increase in volume, increasing by more than 5 million barrels per day to 31 million barrels per day between 2012 and 2035. In comparison, gasoline consumption will only increase by 2 million barrels per day.

The transportation industry will continue to be the major factor in diesel demand, especially the non-Organization for Economic Cooperation and Development countries. Oil-based fuels dominate the transport energy demand, followed by biofuels, electricity for plug-in hybrids and electric vehicles.

The use of natural gas in liquefied or compressed form (LNG or CNG) is expected to reach 5.6% of total energy demand in transport in 2035 and 4.8% in road transport. The United States and China are contributing to the growth of natural gas.

Source: Global Refining & Fuels Report